Endumeni Local Municipality
Audit report for the year ended 30 June 2021

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Endumeni Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Endumeni Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Endumeni Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 4 of 2020) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not properly account for all items of property, plant and equipment in accordance with SA Standard of GRAP 17: *Property, plant and equipment.* Certain portions of land which belonged to the municipality were not recorded in the municipality's accounting records. I was unable to determine the impact on the property, plant and equipment balance, as it was impracticable to do so. Consequently, property, plant and equipment stated at R315,54 million in note 7 to the financial statements is materially misstated by an undeterminable amount. This has a resultant impact on investment property, the surplus for the period and on the accumulated surplus.

Consumer deposits

4. The municipality did not recognise all amounts received in advance that met the definition of a liability in accordance with SA Standard of GRAP 1, *Presentation of financial statements*. The municipality did not maintain adequate records of consumer deposits. I was unable to determine the full extent of the understatement of consumer deposits, as it was impracticable to do so.

Cash and cash equivalents

5. The municipality did not correctly disclose the cash book balances in the notes to the financial statements, as required by section 125(a)(ii) of the MFMA. The cash book balances as disclosed in note 3 to the financial statements was understated by R3,79 million.

Context for the opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses – receivables from exchange transactions

10. As disclosed in note 5 to the financial statements, material losses of R10,21 million was incurred as a result of a write-off of irrecoverable debtors.

Material provision for doubtful debts – receivables from exchange and non-exchange transactions

11. As disclosed in note 5 to the financial statements, the municipality recognised a provision for impairment on receivables from exchange transactions of R42,43 million (2019-2020: R37,93 million) as the recoverability of these debts was doubtful.

12. As disclosed in note 6 to the financial statements, the municipality recognised a provision for impairment on receivables from non-exchange transactions of R90,07 million (2019-2020: R72,10 million) as the recoverability of these debts was considered doubtful.

Material losses – electricity

13. As disclosed in note 39,5 to the financial statements, the municipality incurred material electricity losses of R41,12 million (2019-2020: R33,92 million), which represents 27% (2019-2020: 20%) of the total electricity purchased. These losses were mainly attributed to the theft of electricity.

Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

21. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the *basic service delivery KPA* presented on pages x to x in the municipality's annual performance report for the year ended 30 June 2021.

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material finding on the usefulness and reliability of the performance information of the selected KPA is as follows:

Basic service delivery

Number of existing consumers units with access to electricity

25. The achievement of 11 899 units for the indicator "Number of existing consumers units with access to electricity" was reported against the target 11 516 in the annual performance report. However, the supporting schedule provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence, due to the lack of accurate and complete records. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Other matter

26. I draw attention to the matter below.

Achievement of planned targets

27. The annual performance report on pages x to x sets out information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraph 25 of this report.

Report on the audit of compliance with legislation

Introduction and scope

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

29. The material findings on compliance with specific matters in key legislation are as follows:

Fnancial statements

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue from exchange and non-exchange transactions and other disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R32,22 million as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on certain budget votes.

32. Reasonable steps were not taken to prevent irregular expenditure of R9,86 million as disclosed in note 38 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was incurred on the municipality's continued use of an expired contract.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,34 million as disclosed in note 37 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was incurred by the municipality in pursuing legal matters, which were unsuccessful.

Consequence management

34. Some of the unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

35. Some of the irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

36. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Municipal Supply Chain Management Regulation (MSCMR) 19(a) of the of 2005. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of regulation 36(1) of the MSCMR. Similar non-compliance was also reported upon in the prior year.

37. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of regulation 43 of the MSCMR. Similar non-compliance was also reported upon in the prior year.This non-compliance was identified in the procurement processes for an electrification project.

38. Some of the invitations to tender for procurement of commodities designated for local production and content, did not stipulate the minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(2). Similar non-compliance was also reported upon in the prior year.

39. The performance of some of the contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Asset management

40. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Strategic planning and performance management

41. Key performance indicators were not set in respect of the provision of basic solid waste removal services, as required by section 43(2) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) and regulation 10(a) of the municipal planning and performance management regulations of 2001.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on this auditor's report.

43. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

44. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

45. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

46. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

47. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

48. Management did not perform adequate review procedures and reconciliations in respect of financial and performance reporting processes to ensure the accuracy and completeness of the financial statements and the annual performance report. Moreover, the accounting officer did not exercise adequate monitoring and review over the implementation of policies and procedures relating to supply chain management and other related legislation. Oversight was hindered to the extent that the audit committee was not fully functional during the year under review.

Other reports

Investigations

49. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

50. According to the Presidential Proclamation No. R.35 of 2018 published on 14 December 2018 in Government Gazette No. 42101, the Special Investigating Unit was tasked to probe allegations of maladministration, fraud and corruption at the municipality covering the period 1 July 2016 to 14 December 2018. The investigation was completed and the report was presented to the municipality, and the implementation of recommendations is still in progress at the date of this report.

51. The Department of Cooperative Governance and Traditional Affairs initiated a forensic investigation relating to allegations of fraud against certain municipal officials, which was concluded on 14 September 2018. The report was presented to the municipal council on 22 October 2018, whereupon council has made certain recommendations. The criminal investigations are still in progress; and one employee was found guilty and dismissed through the municipality's internal disciplinary processes at the date of this report.

52. Three fraud cases were reported to South African Police Service by the municipality relating to fraudulent qualifications, fraudulent expense claims and allegations of diverting payments from consumers to a personal bank account. The criminal investigations and internal disciplinary proceedings are currently still in progress at the date of this report.

Auditor-General

Pietermaritzburg

28 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected KPAand on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
- conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Endumeni Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, the actions taken to eliminate threats or the safeguards applied.